

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

see Exhibit "A" Attached hereto & made a part hereof

PAID UP OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 3rd day of July, 2008, between JOHN W. COBLE AND WIFE, PAMELA J. COBLE, 9603 Divot Dr., Granbury, Texas 76049, as Lessor and CARRIZO OIL & GAS, INC., 1000 Louisiana Street, Suite 1500, Houston, Texas 77002, as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions including the completion of blank spaces, were prepared jointly by Lessor and Lessee.

1. Description. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called "leased premises".

**1.291 acres**, more or less, out of the A. Newton Survey, A-1161, Tarrant County, Texas, and being Lot 41 of the A. Newton Addition, an Addition to the City of Arlington, Texas, according to the Plat thereof recorded in Volume 388-103, Page 858 of the Plat Records of Tarrant County, Texas and described in Deed dated October 17, 2006, from John W. Coble and wife, Pamela J. Coble to 2608 Matlock, LP, recorded in Instrument No. D206328629 of the Real Property Records of Tarrant County, Texas, including any and all rights to minerals underlying adjacent roads.

In the County of Tarrant, State of Texas, containing **1.291** acres, more or less, (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas along with all hydrocarbon and nonhydrocarbon substances produced in association herewith. The term "gas" as used herein includes helium, carbon dioxide, gaseous sulfur compounds, coalbed methane and other commercial gases, as well as a normal hydrocarbon gases. In addition to the above-described land, this lease and the term "leased premises" also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any payments based on acreage hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. Term of Lease. This lease, which is a "paid-up" lease requiring no rentals, shall be in force for a primary term of **Three (3) years** from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Royalty Payment. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be **26%** of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to sell such production to itself or an affiliate at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be **26%** of the proceeds realized by Lessee from the sale thereof, provided that Lessee shall have the continuing right to sell such production to itself or an affiliate at the prevailing wellhead market price for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase arrangements entered into on the same or nearest preceding date as the date on which Lessee or its affiliate commences its purchases hereunder; and (c) in calculating royalties on production hereunder, Lessee may deduct Lessor's proportionate part of any production and excise taxes. If at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled therewith are capable of producing oil or gas or other substances covered hereby in paying quantities, but such well or wells are either shut in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut in or production therefrom is not being sold by Lessee, then Lessee shall pay an aggregate shut-in royalty of one dollar per acre then covered by this lease, such payment to be made to Lessor on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period while the well or wells are shut in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

4. Shut-in Payment. All shut-in royalty payments under this lease shall be paid or tendered directly to Lessor at the above address, or its successors, regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft and such payments or tenders to Lessor by deposit in the U.S. Mails in a stamped envelope addressed to the Lessor at the last address known to Lessee shall constitute proper payment.

5. Operations. If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or drilling operations for an additional well or for otherwise obtaining, restoring or increasing production on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain, restore or increase production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no interruption of more than 90 consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to reservoirs then capable of producing in paying quantities on the leased premises or land pooled therewith, or (b) protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

6. Pooling. Lessee shall have the right, but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of drilling or production whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The creation of a unit by such pooling shall be based on the following criteria (hereinafter called "pooling criteria"): A unit for an oil well (other than a horizontal ) shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purposes of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more pre barrel, based on a 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means an oil or gas well in

which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. In the event a unit is formed hereunder before the unit well is drilled and completed, so that the applicable pooling criteria are not yet known, the unit shall be based on the pooling criteria Lessee expects in good faith to apply upon completion of the well; provided that within a reasonable time after completion of the well the unit shall be revised if necessary to conform to the pooling criteria that actually exists. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. To revise a unit hereunder, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

7. **Payment Reductions.** If Lessor owns less than the full mineral estate in all or any part of the leased premises, the royalties, and shut-in royalties payable hereunder for any well on any part of the leased premises or land pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to the full mineral estate in such part of the leased premises. To the extent any royalty or other payment attributable to the mineral estate covered by the lease is payable to someone other than Lessor, such royalty or other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder.

8. **Ownership Changes.** The interest of either Lessor or Lessee may be assigned, devised or otherwise transferred in whole or in part by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until sixty days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate at the address designated above. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons, either jointly, or separately in proportion to the interests which each owns. If Lessee transfers its interest hereunder in whole or in part, Lessee shall be relieved of all obligations hereafter existing with respect to the transferred interests, and failure of the transferee to satisfy such obligations with respect to the transferred interests, shall not affect the rights of Lessee with respect to any interests not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

9. **Release of Lease.** Lessee may, at any time and from time to time deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

10. **Ancillary Rights.** No well shall be located less than 300 feet from any house or commercial building now on the leased premises without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises.

11. **Non-Surface Limitation.** Lessee shall not conduct any surface operations upon any part of the surface of the leased premises. Lessee shall, however, have a sub-surface easement to horizontally drill under the surface of the leased premises. Notwithstanding anything contained herein to the contrary, Lessee shall have the right to conduct seismic operations, but only by utilizing the vibroseis-method.

12. **Environmental Safeguards.** Lessee shall employ such measures as will reduce the impact of its operations upon improvements, vegetation and habitat on the leased premises. Lessee shall use reasonable care and safeguards in conducting its operations in or under the leased premises to prevent contamination or pollution from any waste, pollutant, or contaminant to any environmental medium, including soil, surface waters, groundwater, sediments, surface or subsurface strata, ambient air, or any other environmental medium in, on, or under the leased premises. Lessee shall remediate any condition which is hazardous to humans or wildlife resulting from Lessee's operations in or under the leased premises.

13. **Visual Appearance.** Lessee shall not permit the disposal of trash, storage of used equipment or other such materials on the well sites and shall maintain the well sites in a neat and orderly fashion. Lessee shall construct or improve necessary lease roads as all weather roads and shall maintain such roads in a good state of condition and repair in order to prevent excess dust and erosion and maintain the continuity of the surrounding environment. For safety and appearance, Lessee shall install appropriate fences around each well and related facilities in a visually appealing manner in an effort to maintain the continuity of the surrounding area, and shall maintain the fences in a good state of repair. Upon conclusion of Lessee's drilling and completion operations, Lessee shall restore that portion of the well site not being utilized by Lessee for producing operations as nearly as is reasonably practicable to its original state. In addition, Lessee shall maintain the well sites in a manner whereby they shall be free of noxious vegetation and debris resulting from Lessee's operations. Upon lease expiration, Lessee shall remove all of Lessee's equipment and restore the surface of the ground as nearly as is reasonably practicable to its original state.

14. **Groundwater Protection.** Any oil or gas wells drilled by Lessee shall be drilled in compliance with the surface casing requirements imposed by the State of Texas for groundwater protection and Lessee shall install such surface casing in the required manner in order to insure the protection of all fresh water bearing formations in and under the leased premises.

15. **Noise Abatement and Safety.** Lessee shall utilize modern equipment with appropriate safeguards in its drilling, completion and producing operations. Whenever possible, Lessee shall install sound barriers and utilize hospital grade mufflers on compressors to reduce noise levels and emissions while conducting its operations in populous urban areas.

16. **Seismic Operations.** Lessee shall pay for all damages incurred to the leased premises which result from its seismic operations. Other than seismic operations as provided herein, by execution and delivery of this Lease, Lessee does not otherwise obtain the right to conduct exploration, excavation or drilling operations from or upon the surface of any portion of the leased premises.

17. **Local Ordinances.** In conducting its operations hereunder, Lessee shall comply with all ordinances, rules or regulations imposed by the City of Arlington or other governmental agency which are in effect as of the date of this lease.

18. **Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. Lessor hereby agrees that, in the event Lessee deems it necessary to seek a variance, waiver or other relief from any laws, rules, regulations, or orders (which for purposes of this paragraph shall include any ordinance) or other such authority exercised by, (i.) the City of Arlington, (including but not limited to the well setback distance for gas drilling and production, or (ii.) by any other governmental entity or authority having jurisdiction, then Lessor shall engage in reasonable acts and execute and deliver such instruments and documents Lessee deems necessary or convenient in seeking such relief. In the event Lessee is required by such authority to acquire Lessor's consent as a prerequisite to obtain such variance, waiver or other relief, Lessor grants to Lessee and agrees that Lessee's leasehold estate acquired hereunder includes, the right to utilize this lease as Lessor's consent and ratification of any subsequent variance, waiver or other relief Lessee seeks, without the necessity of Lessee obtaining any additional or subsequent consent/s from Lessor. Lessor furthermore agrees not to execute documents or instruments or engage in acts that would diminish or adversely affect the relief Lessee is seeking. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such

prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provisions or implied covenants of this lease when drilling, completion, production or other operations are so prevented or delayed.

19. Lessee is hereby given the exclusive option to extend the primary term of this lease for an additional two (2) years from the expiration of the original primary term plus any extension of the primary term extended under any lease provision contained herein. This option may be exercised by Lessee at any time during the last year of the original three year primary term, plus any extension period occurring as a result of other lease provisions contained herein, by paying to Lessor or their heirs, successors or assigns, the sum, per net mineral acre, equal to (2/3) two-thirds of the original bonus payment per net mineral acre made by Lessee for the original three year primary term. Lessee shall exercise such option and such option shall be deemed to be properly, timely and fully exercised by Lessee if Lessee forwards written notice of such election along with the payment to Lessor by either, (i.) U.S. Mail, (ii.) Overnight Delivery Service, or (iii.) by personal delivery, postage prepaid, to Lessor's last known address, which, in either case, shall occur prior to the end of the primary term hereof, plus any extension period occurring as a result of other lease provisions contained herein.

20. Breach or Default. No litigation shall be initiated by Lessor for damages, forfeiture or cancellation with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

21. Warranty of Title. Lessor hereby agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

IN WITNESS WHEREOF this instrument is executed on the date first above written.

LESSOR: JOHN W. COBLE

LESSOR: PAMELA J. COBLE

SIGNATURE: *John W. Coble*

SIGNATURE: *Pamela J. Coble*

#### ACKNOWLEDGEMENT

new Mexico  
STATE OF ~~TEXAS~~ §  
§  
COUNTY OF Taos §

This instrument was acknowledged before me on the 7<sup>th</sup> day of August, 2008, by JOHN W. COBLE AND WIFE, PAMELA J. COBLE.

*Karlgo Behr*  
Notary Public for the State of ~~Texas~~  
new Mexico

## EXHIBIT "A"

Attached hereto **and made a part hereof** that certain Oil, Gas and Mineral Lease dated July 3, 2008, by and *between* John W. Coble and wife, Pamela J. Coble, as Lessor and Carrizo Oil & Gas, Inc., as Lessee

The provisions of **this** Exhibit "A- suspend and control with respect to all inconsistent provisions in the oil and gas mineral lease attached hereto. Hereto all terms, clauses, amendments shall be considered "conditions" and not "covenants". Lessee shall also pay to the Lessor it's proportionate share of any street, alleyway, highway, railroad, canal, river, or body of water adjacent to or contained within the subdivision, or, if the property is not included in a subdivision, any such acreage immediately adjacent to Lessor's property on the bonuses and all royalties.

### LEGAL DESCRIPTION

Being a 1.291 acre tract, more or **less**. **Being** Lot 41 of the A. Newton Addition, an Addition to the City of Arlington, Tarrant County, Texas, according to the revised Plat recorded in Volume 388-103, Page 858 of the Plat Records Tarrant County, Texas

This lease shall include all streets, alleyways, easements, gores and ships of land adjacent and contiguous thereto. If any additional acreage is included in this Lease pursuant to the foregoing sentence, then bonus and royalty shall be calculated and paid as to said additional acreage on the same terms as it is calculated and paid for the land specifically described above.

### OPTION TO EXTEND

Lessee is *hereby* given *the* option to be exercised at any time prior to the date on which this lease would expire in accordance with the terms and provisions, of extending this Lease for an additional period of (2) years as to all or any portion of the acreage of the Leased Premises. The only action required by Lessee to exercise such option shall be the payment to lesser an additional consideration of the sum of \$17,675.50 per mineral *acre*, payable by check or electronic deposit only. Should this option be exercised as herein provided, it shall be **considered** for all purposes as though this lease originally provided for a primary term of (5) years. If this Lease is extended as to only a portion of the acreage then covered thereby, Lessee shall designate such portion by a recordable instrument.

### MINERALS COVERED

This Lease covers only oil and gas. The term "oil and gas" means oil, gas and other liquid and gaseous hydrocarbons produced through a well bore.

### ROYALTY

(a) As royalties, Lessee agrees:

To deliver free of cost to Lessor at the well(s) or to the credit of Lessor at the **pipeline** to **which** the well (s) may be connected. 26% (the "Royalty Percentage") of ail oil and other liquid hydrocarbons produced and saved from the Land. At Lessor's option, which may be *exercised from time* to time and, which initially shall be assumed as exercised by Lessor unless Lessor notifies Lessee *in writing* otherwise, Lessee shall pay to Lessor the same part of the market value at the well of oil and other liquid hydrocarbons of like grade and gravity prevailing on the day the oil and other hydrocarbons are sold from the Lease in the general area in which the Land is located.

To pay to Lessor:

(I) On gas produced from the Land and sold by Lessee or used on or off the Land and to which the following subparagraphs (ii) and (iii) do not apply, the Royalty Percentage of the market value at the point of sale, use, or other disposition, subject to the other provisions herein.

(ii) On gas produced from the Land that is processed in a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the higher of the Royalty Percentage of the market value of the gas at the inlet to the processing plant, or the Royalty Percentage of the market value of all processed liquids saved from the gas at the plant plus the Royalty Percentage of the market value at all residue gas at the outlet of the point of sale, use, or other disposition.

(iii) On gas produced from the Land that is processed in facilities other than a

processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the Royalty Percentage of the market value at the plant of all processed liquids credited to the account of Lessee and attributable to the gas plus the Royalty Percentage of the market value of all residue gas at the point of sale, use, or other disposition.

(b) The market value of gas will be determined at the specified location by reference to the gross heating value (measured in British thermal units) and quality of the gas. The *market* value used in the calculation of oil and gas royalty will never be less than the total proceeds received by Lessee in connection with the sale, use, or other disposition the oil or gas produced or sold. For purposes of this paragraph, if Lessee receives from a purchaser of oil or gas any reimbursement for all or any part of severance or production taxes, or if Lessee realizes proceeds of production after deduction for any expense of production, gathering, dehydration, separation, compression, transportation, treatment, processing, storage, or marketing, then the reimbursement or the deductions will be added to the total proceeds received by Lessee, except as set forth in (d) below.

(c) Except as permitted in (d) below, Lessor's royalty will never bear, either directly or indirectly, any part of the costs or expenses of production, separation, gathering, dehydration, compression, transportation, trucking, processing, treatment storage, or marketing of the oil or gas produced from The Land or any part of the costs of construction, operation, or depreciation of any plant or other facilities or equipment used in the handling of oil or gas. Lessor's royalty will bear its share of all severance and production taxes.

(d) If Lessee, or an affiliate of Lessee, compresses, transports, processes, or treats gas produced from the Land, Lessor's royalty shall not bear any of the costs associated therewith. If a third party, that is not an affiliate of Lessee, compresses, transports, processes or treats gas produced from the Land, Lessor's royalty will bear its proportionate share of costs and expenses associated therewith, which such expenses shall never exceed \$0.30 per mcf.

(e) Lessor shall be paid the Royalty Percentage of all payments and other benefits made under any oil or gas sales contract or other arrangement, including take-or-pay payments and payments received in settlement of disputes; provided that if Lessor receives a take-or-pay payment or similar payment for gas that has not been produced. Lessor will only receive its Royalty Percentage of any payments made by the gas purchaser for such make-up gas taken pursuant to the take-or-pay provision or similar provision.

(f) If gas produced from the Land is sold by Lessee pursuant to an arms-length contract with a purchaser that is not an affiliate of Lessee, and for a term no longer than that which is usual and customary in the industry at the time the contract is made, then the market value of the gas sold pursuant to the contract shall be the total proceeds received by Lessee in the sale, subject to the provisions of paragraphs 4(b) and (d) above.

(g) As used in this Lease, affiliate means (i) a corporation, joint venture, partnership, or other entity that owns more than ten percent of the outstanding voting interest of Lessee or in which Lessee owns more than ten percent of the outstanding voting interest or (ii) a corporation, joint venture, partnership, or other entity in which, together with Lessee, more than ten percent of the outstanding voting interests of both Lessee and the other corporation, joint venture, partnership, or other entity is owned or controlled by the same persons or group of persons.

(h) Unless there is a reasonable title dispute or question as to title, Lessee must disburse or cause to be disbursed to Lessor its royalty on production from a particular well not later than one hundred twenty (120) days after the end of the month of first sales of production. Thereafter, Lessee must disburse or cause to be disbursed to Lessor its royalty on production by the last day of the second month after the month in which production is sold. If not paid when due, Lessor's royalty will bear interest at the rate equal to the average prime interest rate charged by the two largest banks in Tarrant County, Texas, plus two percent (2%), from due date until paid, which amount Lessee agrees to pay. However, in the event it becomes necessary for Lessor to file a law suit to obtain past due royalties, and Lessor is successful, Lessor's royalty will bear interest at the maximum lawful rate from the due date until paid.

(i) Acceptance by Lessor of royalties that are past due will not act as a waiver or estoppel of its right to receive interest due thereon unless Lessor expressly so provides in writing signed by Lessor. The royalty payment obligations under this Lease shall not be affected by any division order or the provisions of Section 91.402 of the Texas Natural Resources Code or any similar statute.

(j) The receipt by Lessee from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee acquiring legal or equitable title to Lessor's share of those proceeds, but Lessee will at all time hold Lessor's share of those proceeds for the benefit of Lessor. Notwithstanding the insolvency, bankruptcy, or other business failure of a purchaser of production from the Land or pipeline company transporting production from the Land, Lessee will remain liable for payment to Lessor for, and agrees to pay Lessor all royalties due Lessor together with interest if not timely paid. Lessor shall never be paid in kind. Furthermore, all payments due to Lessor under this Lease shall be made by check or electronic deposit

#### **SHUT-IN ROYALTY**

Lessee shall pay an annual shut-in royalty of \$5,000 per each well in pooled unit from which gas is not being

... sold. Payments shall be made within 60 days after the well is shut-in and shall be proportionately reduced to Lessor's percentage of acreage in the pooled unit. While shut in royalty payments are timely and properly paid, this Lease will be held as a **producing lease**. The right of the Lessee to maintain this lease in force by payment of shut-in gas royalty is limited to a period of (3) cumulative years during which the well is actually shut in.

#### ACREAGE LIMITATION/POOLING

A pooled unit for a horizontal well may not exceed 640 acres plus a maximum acreage tolerance of 10%. Upon the expiration of the primary term of this Lease, of any extension, or after cessation of operations as provided herein, the Lease shall terminate as to all rights (100') below either (1) the deepest depth drilled in any well drilled on the leased premises or on lands pooled therewith or (2) the stratigraphic equivalent of the base of the Barnett Shale formation producing or capable of producing in any well drilled on the leased premises or on lands pooled therewith, whichever is the deepest provided, however, if Lessee is then engaged in operations on the leased premises or on lands pooled therewith, this Lease shall remain in full force and effect as to all depths so long as no more than ninety (90) days elapse between the completion of one well and The commencement of operations of another well,

#### WATER

Lessee shall have no use of water from the Leased Premises & Lessee will conduct all operations hereunder in compliance with the rules of the Railroad Commission of Texas, federal and state environmental laws and regulations and municipal ordinances.

#### NO WARRANTIES

Lessor makes no warranty of any kind with respect to the title to the land or mineral estate in the leased premises. By acceptance of this Lease, Lessee acknowledges that it has been given full opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the leased premises. Lessee assumes all risk of title failures.

#### SUBORDINATION AGREEMENT FEES, DIVISION ORDERS

Notwithstanding anything contained herein to the contrary, neither Lessee nor Lessee's assigns shall ever require a subordination, partial release of lien, release of lien, consent or other documentation from any lender of Lessor that has a lien on said land as a condition to Lessor receiving any subsequent royalty payment, unless the wellbore penetrates the leased premises or is located within 330 feet from the leased premises, in which case Lessee shall notify Lessor. However, Lessor will cooperate with any reasonable effort of Lessee, at Lessee's sole expense, to obtain same from Lessor's lender on behalf of Lessor. In the event Lessee is unable to obtain a subordination agreement from any lien holder of a lien affecting the leased premises, Lessee is hereby permitted to discharge any tax, mortgage, or other lien or interest and other charges on the leased premises, and in the event Lessee does so, Lessee will have the option of applying the royalties accruing to Lessor toward payment of same and Lessee shall be subrogated to the rights of the holder thereof. In the event Lessee must exercise its discharging rights herein granted, Lessee shall provide prior written notice to Lessor.

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#### INDEMNITY

Lessee agrees to indemnify and hold harmless Lessor, and Lessor's representatives, successors, and assigns against all expenses, claims, demands, liabilities, and causes of action of any nature for injury to or death, of persons and loss or damage to property, including, without limitation, reasonable attorney's fee, any violation of any environmental requirements by Lessee. Lessee includes Lessee, its agents, employees, servants, contractors, and any other person acting under its direction and control, and its independent contractors. The Lessee shall fully protect, indemnify, and hold harmless the Lessor. Lessee's indemnity obligations survive the termination of this lease.

#### ASSIGNMENTS

Any assignment by Lessee shall be subject to all the conditions of this Lease. Every transferee shall be subject to all conditions and obligations included in this Lease including any unpaid royalties. Lessee shall provide Lessor with copies of any assignments of this Lease.

#### CONTINUOUS DEVELOPMENT

if, at the expiration of the Primary Term, oil or gas is not being produced from the Leased Premises, but Lessee has commenced the drilling of a well on the Leased Premises, the lease will not terminate, but will remain in effect for so long thereafter as operations are carried out with the due diligence with no cessation of more than 60 consecutive days, and if the operations result in the production of oil or gas, the Lease shall remain in force as otherwise provided herein. For the purpose of this Lease, the term "operation" shall mean operation of any of the following: preparing a drill site, drilling, testing, completing, reworking, re-completing, deepening, plugging back, or repairing of a well in search for or in the endeavor to obtain production of oil and gas. For the purpose of Paragraphs 4 and 11, only, of this Lease, the term "operations" shall mean "production of oil and gas and other minerals" as provided in this Lease.

Notwithstanding anything contained herein to the contrary, Lessee hereby waives and releases all

surface rights of every kind and nature acquired under this lease. Lessee shall not conduct any surface operations whatsoever upon the Leased Premises. However, this waiver of surface rights shall not be construed as a waiver of the right of Lessee to exploit, explore for, **develop, or** produce such oil or gas with wells drilled from outside of the leased premises and in no event may the drilling activity penetrate the land at a depth of less than 500 feet below the surface.

#### ATTORNEY'S FEES

In the event that either party is required to employ legal counsel for the enforcement of any provision of this lease or defense of any alleged breach, the prevailing party will be entitled to recover from the other party reasonable attorney's fees and expenses incurred by the prevailing party.

#### INSURANCE

At all times while this lease is in force, lessee shall acquire and maintain insurance covering all of its activities and operations hereunder, including any work performed on its behalf by contractors, subcontractors, and others. The policies shall include coverage for comprehensive general liability, for bodily injury and property damage, blowout and loss of well coverage and coverage for any damage to the environment including coverage for the cost of clean up and surface remediation. The coverage shall be in the minimum amount of \$5,000,000..

#### RIGHT TO AUDIT

Lessor shall have the right to audit, exercisable not more than once during any 12-month period, the accounts and records of Lessee, its successors and assigns, relating to the leased premises and to its operations under this lease insofar and only insofar as it specifically relates to the calculation of royalties, however, such audit rights shall not extend to any periods which are twenty-four months (24) prior to the date of such audit notice. Such right shall be exercised by Lessor by giving Lessee not less than thirty (30) business days prior notice and such audit shall be conducted only during normal business hours. Lessor shall bear all costs of any such audit. If the audit reveals an underpayment of more than \$50,000, Lessee shall be responsible, and promptly reimburse Lessor in respect of all reasonable expenditures by Lessor, for the full costs of the audit, or for those costs up to the amount of such underpayment, whichever is lesser.

#### MISCELLANEOUS

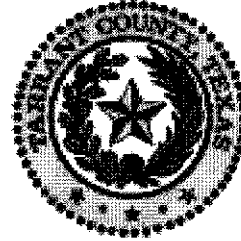
Lessee, at all times, will comply with all municipal, state and federal statutes as they apply to the operation, preparation of a drill site, drilling, testing, completing, reworking, re-completing, deepening, plugging back, or repairing of a well in search for or in the endeavor to obtain production of oil and gas. This Lease is entered into in the State of Texas and shall be construed, interpreted and enforced in accordance with the laws of the State of Texas without reference to choice-of-law rules. Should any of the provisions herein be determined to be invalid by a court of competent jurisdiction, it is agreed that this shall not affect the enforceability of any other provision herein and that the parties shall attempt in good faith to renegotiate that provision so determined to be invalid to effectuate the purpose of and to conform to the law regarding such provision. Venue for any dispute arising under this Lease shall lie in Tarrant County, Texas, where all obligations under this Lease are performable. At any time that any obligation of the Lessee to make a payment shall not be complied with in accordance with the terms of the Lease, it is agreed and understood that Lessee will pay to Lessor interest thereon at the highest lawful rate allowed to be charged to Lessee by Lessor under the then existing Statutes of the State of Texas. It is agreed and understood that time is of the essence in the performing of each responsibility under the terms of this Lease. The rights of Lessor under this Lease shall be in addition to, and not in lieu of, all rights Lessor may have as to payment of royalty under Texas law, including, without limitation, V.T.C.A. Natural Resources Code 91.405..

Return: E6J  
3754 Broken Bow Rd  
Beckton, TX 76513

EGJ  
3754 BROKEN BOW RD

BELTON TX 76513

Submitter: EGJ ENTERPRISES INC



SUZANNE HENDERSON  
TARRANT COUNTY CLERK  
TARRANT COUNTY COURTHOUSE  
100 WEST WEATHERFORD  
FORT WORTH, TX 76196-0401

**DO NOT DESTROY**  
**WARNING - THIS IS PART OF THE OFFICIAL RECORD.**

Filed For Registration: 08/19/2008 02:37 PM  
Instrument #: D208325657  
LSE 8 PGS \$40.00

By: \_\_\_\_\_



**D208325657**

ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE  
OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR  
RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

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